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## NOTES AND MEMORANDA.

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THE sections of the Tariff Act of 1894 which provide for an income tax are printed in the Appendix of this number, with annotations which show the parts of former acts made use of in framing the new one. There is not a little internal evidence of close and hasty copying; but in no case was such indiscretion shown as in the transfer from Section 13 of the act of March 2, 1867, to Section 28 of the act of 1894. To exhibit this clearly, the opening sentences of the two sections are here given side by side: —

*From the Act of 1867.*

That, in estimating the gains, profits, and income of any person, there shall be included all income derived from interest upon notes, bonds, and other securities of the United States; profits realized within the year from sales of real estate purchased within the year or within two years previous to the year for which income is estimated; interest received or accrued upon all notes, bonds, and mortgages, or other forms of indebtedness bearing interest, whether paid or not, if good and collectible, less the interest which has become due from said person during the year; the amount of all premium on gold and coupons; etc.

*From the Act of 1894.*

That, in estimating the gains, profits, and income of any person, there shall be included all income derived from interest upon notes, bonds, and other securities, except such bonds of the United States the principal and interest of which are by the law of their issuance exempt from all federal taxation; profits realized within the year from sales of real estate purchased within two years previous to the close of the year for which income is estimated; interest received or accrued upon all notes, bonds, mortgages, or other forms of indebtedness bearing interest, whether paid or not, if good and collectible, less the interest which has become due from said person or which has been paid by him during the year; *the amount of all premium on bonds, notes, or coupons*; etc.

It is obvious that the draughtsman of 1894 copied easily and with the minimum of change from the act of 1867 then before him,—so easily indeed that he probably did not stop to inquire what the “premium” in the last line could refer to. In the act of 1867 the premium on gold and coupons measured the difference between gold and the depreciated paper in which the income was reckoned, but that premium passed away fifteen years ago. Does the clause in the present act, then, provide for a possible depreciation hereafter, or, as is more probable, does it simply mean nothing?

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THE winding up of the Barings liquidation has closed one of the most remarkable episodes in the history of the Bank of England. The total amount of assets to be disposed of, when the Bank undertook for itself and its associates to meet the obligations of the firm in 1890, was nearly £25,000,000. This amount had been reduced by the negotiation of one parcel after another, until in November, 1894, the Bank had remaining in its hands securities estimated at about £2,200,000, to cover a balance of £1,500,000 still unpaid on the advances of 1890. A company has now been formed by friends of the house, to settle the unpaid balance due to the Bank and take the remaining assets, in the hope that, by holding them until they find a better market than now exists, a considerable value may be saved for the Barings.

The Bank and its associates have escaped, therefore, without loss from a venture which was attended by serious risk. It is doubtful, however, whether public opinion is now so ready to approve the operation as it was in 1890. At that time the sense of escape from the possible disaster of a general panic was uppermost, and a courageous movement for relief in some degree disarmed criticism. As time has gone on, it has been asked with increasing frequency whether this public service was an unmixed good. Is it for the general good that the business community should come to understand that in case of extremity superior power will save them from the consequences of their own acts, and that houses which

undertake business of the South American class should feel that, if their liabilities are large enough, their property will be saved from sacrifice and nursed for their benefit? And, supposing these questions to be answered in the affirmative, is the Bank of England, occupying the position of central responsibility in a financial system of wonderful refinement and extent, the proper agency for performing this service, and have its directors been intrusted with the property of their stockholders for such a purpose? Four years have given to these considerations weight such as they did not appear to have in the closing weeks of 1890.

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THE transactions of the German Silver Commission, which closed its sessions in June, are accessible to readers in several forms. Puttkammer & Mühlbrecht issue a folio edition in two volumes for 40 marks, Walther an edition in octavo at  $4\frac{1}{2}$  marks, and Decker an official report in octavo for 4 marks. The documents which accompany the report of the sessions are numerous, and some well-known names appear. Two papers were submitted by Professor Lexis, of which one has been published in the *Jahrbücher für National-Oekonomie*, and an interchange of papers and replies by Arendt and Bamberger developed the conflicting views as to the earlier history of the German coinage reform.

The German commission, in short, has added to the literature of the subject, but has not been more successful than others in arriving at any common ground on which opposing parties can unite, or in devising any practical scheme on which the course adopted by Germany can be altered with advantage. The chairman of the commission is said to have given general satisfaction by the fairness of his summing up at the close; but, after an impartial summary of the arguments brought forward on the one side and on the other, his recital of the points of agreement presents but a meagre array of three points: namely, that the fluctuation and low price of silver are inconvenient for the export trade of Germany, and also for her productive industry; that Germany cannot by herself raise the value of silver; and that an attempt to raise

it by monopolizing the supply or by state ownership of mines would be impracticable. On the questions whether the value of silver can be raised while the production of silver is free, what ratio could be proposed as the basis of an international agreement, and whether the remedies proposed for existing evils are not more dangerous than the evils themselves, no agreement was reached.

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THE act of Congress of May 31, 1878, requires that all legal tender notes redeemed or otherwise received into the Treasury shall be reissued and "kept in circulation." A great many people, who have observed for sixteen years with indifference the operation of this measure for defeating the true interest of specie resumption, have apparently had their eyes opened by the events of the last two years, and especially of the last few months, and now agree with Mr. Carlisle that the Treasury has an impossible task thrown upon it by the compulsory reissue of notes after their redemption with borrowed money. Perhaps not so many are yet ready to follow the Secretary in what appears to be the further logically necessary conclusion, that the legal tender notes should be retired; but there appears to be a concentration of sound opinion in this direction stronger than has been seen since the country accepted the plan of keeping the legal tender issue at a fixed amount.

This movement of opinion, of course, strengthens the current in favor of a thorough revision of the system of bank-note circulation; but it is a noteworthy fact that in much of the discussion on this subject the necessity for some stringent provisions for the real redemption of bank-notes is habitually neglected. The substitute to be required for the present deposit of United States bonds, such as a lien upon general assets, personal liability of stockholders, a safety fund, or mutual assessment among banks, is a natural and important subject of close debate. But this is all provision for the ultimate security of bank-notes,—an assurance to the public that there is something behind the notes,—and has little to do with the vital question whether the notes are to be treated as

an actual demand liability, to be met daily in practice as well as in theory, and in the regular course of business.

It is not too much to say that under the national banking system bank-notes have never been thus treated except in theory. The fact that the system made complete provision for payment in case of a bank's insolvency, and that it went into operation during a suspension of payments, when the redemption of a note meant only the exchange of one piece of paper for another, appears to have completely diverted attention from the part played by real redemption in sound banking. The establishment of the system of redemption at the Treasury by the act of 1874 made the obligation of redemption by the banks themselves so unimportant that they were then relieved from keeping in their own hands any reserve against circulation. The redemption by the Treasury has been a convenient method of disposing of worn or soiled notes, and in case of accumulations of currency at special points has facilitated its rapid exchange for legal tender or specie. But nobody would say that the system has compelled any bank to face its notes in the same sense in which it has to face its liability for checks drawn against deposits. Probably no bank has ever been made to feel through its circulation that it was carrying too much sail. The known goodness of the note in any event and the fact that, as things stand, it can be turned to account much quicker by paying it out than by sending it home or to Washington for redemption, has kept the circulation of all banks at a tolerably constant level, and made it, not a daily liability, but a rather remote one, not likely to give any trouble. During a period when the declining profit on circulation held the issue of notes in check with increasing severity, the fact that bank-notes were thus virtually irredeemable did not show its full importance; but how would it have been, had circumstances stimulated inflation? Is there anything in the present provisions as to redemption to insure that any particular bank should then feel the consequences of its own share in the inflation, or to make the system as a whole feel the warning pressure from its note-holders, which would be the sign of the natural reaction and recovery from over-issue?

Mr. Carlisle has laid down the general doctrine that "a sound and elastic currency, capable of adjusting its volume easily and rapidly to the actual demands of legitimate business, is what the common interests of all our people require." This is undeniable; but it is clear that to Mr. Carlisle's apprehension this object is gained, if the formal taking out and retiring of circulation in the Comptroller's office is freed from unnecessary delay. Redemption by the bank itself he regards as beneficial, because, in his view, the responsibility thus thrown upon the bank will promote conservative management. But, in order to secure true elasticity, it is not enough to adjust the use of bank credit to the variation of demand over relatively long periods, such as are implied in the taking out of additional currency or the partial surrender of that already in use. A "sound and elastic currency" needs to be adjusted to the daily fluctuations of demand, by making the process of daily redemption as easy and as certainly effective as the process of daily issue. Especially where the issuing banks are numbered by thousands, the legal obligation of redemption must be ineffective, unless there is a strong and well-diffused interest at work engaged in securing the presentation of notes for redemption or exchange, and not satisfied with the mere use of them in payments.

The necessity of some special provision for securing prompt and constant redemption by banks was not altogether overlooked when the national banking system was in its infancy. A large number of the banks of New York, Boston, and Philadelphia, attempted in 1865 to form an association for establishing "assorting houses" in those three cities, with the intention of setting in operation something not unlike the well-known "Suffolk Bank System" on a national scale, by receiving the notes of all banks and requiring immediate redemption, either by an agent on the spot or at the counter of the issuing bank.\* The Comptroller of the Currency also continued from 1865 to 1870 to urge the necessity of some system of central redemption which should restrict issues to the legitimate demand; but a strong influence against any plan which should send home notes of undoubted credit was developed early, and

\* See the *Bankers' Magazine*, 1865-66, pp. 193, 401, 415.

neither the plan for assorting houses nor any other was able to gain any footing. How far either of the plans brought forward at that time could have been made really effective without some legislation far stronger than could have been obtained from Congress, it is hard to say. Frequent reference was made in discussion to the Suffolk Bank system, then fresh in the minds of many, and to its success in keeping the New England bank currency sound. But for many years the Suffolk Bank system certainly owed much of its efficiency to the provision in the Massachusetts statutes forbidding any bank to pay out any notes except its own. This stringent provision compelled every Massachusetts bank to send in for redemption the notes of any other bank which it might receive, and thus made the return current of circulation as strong for notes as for checks. There has never been a time, however, when any measure either like this or looking in this direction could have been adopted for the national bank circulation; and yet experience has shown that, in default of some such provision, the national bank circulation, with all its provision for absolute security, has nothing to connect it with the constant daily ebb and flow of business.

The Scotch and Canadian systems, which are often referred to in current discussions with well-deserved admiration, are better off than ours in this respect. The Scotch banks, few in number, but competing with each other sharply by means of a great network of branches, have long maintained a daily exchange of notes, which compels every bank to meet its notes at the clearing house in addition to its obligation to receive or redeem them at its own counters. The effect of this systematic reflux of notes upon the issuing banks is shown in the great variability of the outstanding circulation. The fact that not only the duty of redemption is prescribed and the place for it fixed, but that in almost every village any Scotch bank will find established by its side a branch of some rival, with a strong motive for requiring notes to be redeemed, makes the liability for notes a real, daily liability, as sensitive to the condition of business as the movement of deposits.

The working of the Canadian system is similar to the Scotch. The thirty-eight Canadian banks have about five hundred



branches, widely scattered over the whole territory. Every bank is obliged to redeem not only at its head office, but at agencies in seven cities and at such other places as the Treasury may require; but, besides this, every bank has to meet at a large number of points the branches of one or more of its competitors, each following the practice, for obvious reasons, of sending home promptly for redemption all notes of other banks which may come to it in the course of business. The duty of redemption thus enforced from day to day is necessarily a wholesome check, keeping the circulation of every bank, like the rest of its indebtedness, down to the point which its business requires and will bear. The effect is seen in the tidal flow of the Canadian circulation at regular periods, in response to the varying needs of the community at different seasons of the year.\*

It is obvious that any system of this kind implies the loss of some characteristics which our people have thought for twenty-five or thirty years to be the distinguishing marks of a thoroughly strong and satisfactory note circulation. The characteristic of the national bank-note of which we have perhaps been proudest is its universal credit and its unimpeded circulation in every part of the Union. With effective redemption and a strong reflux of notes to the point of issue, it is plain that the note circulation would become to a great extent local. Its credit might be undoubted, but, with our practice of confining the business of any bank to a single spot, notes would not usually be widely distributed, and would find their field for circulation chiefly in the neighborhood of the bank; and this would shorten the life of the note, no doubt to the frequent inconvenience of banks, which have so long been accustomed to look upon their circulation as a rather fixed amount of standing credit. We should not be likely to reach the point attained by the Scotch note circulation, which on the average is renewed about once in ten days; but there would be a

\*A valuable pamphlet by Mr. L. Carroll Root, on the "Canadian Bank-note Currency," is printed in *Sound Currency* for December 15, 1894, published by the Sound Currency Committee of the Reform Club, 52 William Street, New York. See especially on page 9 a diagram showing the distribution of the branches of the Canadian banks, and on page 13 a comparison of the bank circulation of Canada and of the United States respectively at the end of each month for four years.

constant tendency to early return, stronger in some sections than in others, according to varying needs of the public. Such changes as these would be a shock to some of the ideas with which we have become familiar in the last quarter of a century; but, if anything is to be learned from the success of other countries and from our own experience, such changes are the price which we must pay if we hope to secure an easily working, sound, and flexible circulation. Especially is it hard to see what abatement of this price can be expected, if we undertake to give the right of circulation to a great mass of State banks as well as to those under the national system.